S&P Global Ratings

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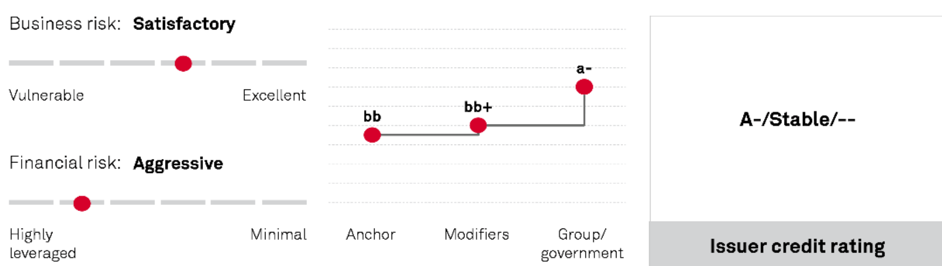
Sinochem Hong Kong (Group) Co. Ltd.

December 6, 2021

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Integral to Sinochem Holdings Corp. Ltd. as a direct extension of the group; also benefits from parent support for refinancing.	High leverage from debt-funded spending on property development.
Sinochem Holdings has a very high likelihood of receiving extraordinary support from Chinese government, if needed.	Sinochem Holdings has very high leverage after taking over hefty debt from China National Chemical Corp. Ltd.
Sinochem Holdings has global leading market positions in agriculture, animal nutrition, and silicone material businesses.	Sinochem Holdings' earnings susceptible to fluctuations in energy and chemical-product prices.

Sinochem Hong Kong (Group) Co. Ltd. will benefit from support from Sinochem Holdings and indirectly from the Chinese government. Sinochem Hong Kong's creditworthiness is driven by that of its parent, in our view. The company is a direct extension of Sinochem Holdings. It is fully integrated with the group strategically, operationally, and financially.

Sinochem Hong Kong is Sinochem Holdings' key offshore investment and financing platform. The company is distinct from the other financing and investment vehicles of Sinochem Holdings' subsidiaries, in that it directly acts on behalf of the ultimate parent for high-level, strategic initiatives.

Sinochem Holdings has a very high likelihood of receiving government support in case of financial stress. This is because the group plays a very important role in promoting the modernization of China's agricultural industry. It also operates national strategic reserves of important materials such as oil and natural rubber. As the only chemical state-owned enterprise (SOE) under the central State-owned Assets Supervision and Administration Commission (SASAC), Sinochem Holdings also takes an active part in setting industry benchmarks and regulations for the domestic market.

Sinochem Holdings' financial leverage will remain very high over the next 24 months. The group's debt-to-EBITDA ratio will remain elevated at 8.1x-9.4x in 2021-2023, versus 10.2x in 2020. Improving earnings and steady debt will moderate its leverage in 2021-2023. We estimate EBITDA will grow at an average rate of 12.1% per year over this period because of a market recovery and higher sales volume in agrochemicals and other commodity chemical products.

Adjusted debt will grow at less than 1% per year over this period as we project the group will fund its annual capital expenditure (capex) with operating cash flow. We do not take into consideration potential proceeds from an initial public offering (IPO) of Syngenta Group Co. Ltd., a key subsidiary of Sinochem Holdings. This is due to uncertain timing.

Sinochem Hong Kong's deleveraging will depend on the company's earnings growth over the next two years. Its financial leverage is mainly driven by its key subsidiary, China Jinmao Holdings Group Ltd. (Jinmao). We project Sinochem Hong Kong's debt-to-EBITDA ratio will remain high at 5.7x-6.7x in 2022-2023, although better than the 7.2x we estimate for this year. We anticipate its higher earnings will be underpinned by property-development projects and higher-margin city-operation projects over the next two years. Debt will still grow over the coming two years, although likely at a slower rate. We view Jinmao's current land bank as sufficient to support development for the next four to five years. This will moderate the company's pace of debt-funded land purchases.

Outlook

The stable outlook reflects our view that Sinochem Hong Kong will be a core subsidiary of Sinochem Holdings. We expect Sinochem Holdings to remain a leading chemical company globally, with geographical and product diversity. Despite an increase in operating cash flow as it grows its business, Sinochem Holdings' debt-to-EBITDA ratio will likely remain high at above 8.0x over the next 24 months. We assess Sinochem Holdings as having a very high likelihood of receiving extraordinary government support in case of financial stress.

Downside scenario

We may lower our rating on Sinochem Hong Kong if:

- Sinochem Holdings' EBITDA interest coverage ratio falls below 2.0x on a sustained basis due to a prolonged industry downturn or large capital spending or debt-funded acquisitions; or
- Material asset disposals, divestments, or restructuring weaken Sinochem Hong Kong's group status within Sinochem Holdings.

Upside scenario

We may raise our rating on Sinochem Hong Kong if:

- Sinochem Holdings substantially reduces its debt from stronger operating cash flow, equity injections, or asset disposals, such that its debt-to-EBITDA ratio falls below 4.0x on a sustained basis; or
- A strengthening in Sinochem Holdings' importance to the Chinese government, including larger revenue and a rising market share in China's agricultural sector, such that we view the likelihood of the company receiving extraordinary government support has increased.

Our Base-Case Scenario

Assumptions

- Sinochem Holdings will remain the key driver of Sinochem Hong Kong's credit profile. The financial risks of Sinochem Hong Kong are reflected in Sinochem Holdings' consolidated financial ratios because the subsidiary is integral to the group.

- Brent crude oil prices will average US$75 per barrel for the rest of this year, US$65 per barrel in 2022, and US$55 per barrel in 2023.
- Chemical prices and spreads to soften in 2022-2023. This is in tandem with lower oil prices, as demand normalizes after peaking this year.

Key Metrics

Sinochem Hong Kong (Group) Corp. Ltd.--Key Metrics*

Mil.HK$	2019a	2020a	2021e	2022f	2023f
Revenue growth (%)	(35.0)	36.6	58.5	6.0	6.9
EBITDA margin (%)	28.2	24.0	19.2	20.7	23.4
Capital expenditure	2,142	1,341	2,200	2,200	2,200
Debt to EBITDA (x)	9.5	8.5	7.2	6.7	5.7
FFO to debt (%)	0.0	(0.6)	5.9	6.9	8.4
EBITDA interest coverage (x)	1.5	1.6	2.1	2.3	2.7
FFO interest coverage (x)	1.0	0.9	1.9	2.1	2.3

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Sinochem Holdings Corp. Ltd.--Key Metrics*

Mil.RMB	2019a	2020a	2021e	2022f	2023f
Revenue growth (%)	(2.6)	(15.3)	24.2	(3.6)	(1.9)
EBITDA margin (%)	7.5	8.7	7.6	8.4	9.4
Capital expenditure	41,719	35,645	36,000	36,000	36,000
Debt to EBITDA (x)	10.4	10.2	9.4	8.9	8.1
FFO to debt (%)	3.2	4.0	5.5	6.0	6.7
EBITDA interest coverage (x)	1.9	2.2	2.7	2.9	3.1
FFO interest coverage (x)	1.6	1.9	2.4	2.6	2.8

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Sinochem Holdings' revenue will drop by 3.6% in 2022 and 1.9% in 2023, from a 24.2% increase that we estimate for 2021. Revenue will drop over the coming 24 months due to lower crude oil prices and a fall in chemical product prices as market conditions normalize. Revenue in 2021 has been supported by higher oil and chemical product prices as demand recovers from COVID-19 disruptions last year.

Sinochem Holdings' EBITDA margin will increase to 8.4%-9.4% in 2022-2023, from 7.6% that we estimate for 2021. The margin improvement will be driven by a shift of business mix to higher-margin businesses, such as agrochemicals. The stronger margin is also attributable to lower contributions from its slim-margin energy trading business as oil price falls over the coming 24 months.

Sinochem Holdings will spend capex of about RMB36 billion per year in 2021-2023, from RMB35.6 billion in 2020. We anticipate Sinochem Holdings will maintain steady investments to expand its capacity and product diversification for its agrochemical, fine-chemical, and commodity-chemical businesses. We assume working-capital cash outflow of RMB3 billion-RMB5 billion over this period to support the group's expansion.

Sinochem Holdings will make small-scale acquisitions of RMB3 billion per year in 2022-2023, from RMB5 billion that we estimate for 2021. The group will acquire businesses with technical expertise to solidify its competitive edge in mainly the agriculture and material chemical businesses.

Sinochem Hong Kong's revenue growth will ease to 6.0%-6.9% in 2022-2023, after a 58.5% spike this year. The company's secondary property sales and city-operation projects will support higher revenue. Its EBITDA margin will recover to 20.7%-23.4% over the coming two years, from 19.2% that we estimate for this year. This is because higher-margin city-operation projects will contribute a larger proportion to its business mix.

Company Description

Sinochem Hong Kong is wholly-owned by Sinochem Holdings. The company is the group's key offshore platform for investments and offshore funding. It owns 35.2% of China Jinmao Holdings Group Ltd., which operates the group's property segment.

Sinochem Holdings is the only Chinese SOE wholly-owned by the central SASAC. The group was established in May 2021 through a combination of Sinochem Group Co. Ltd. and China National Chemical Corp. Ltd. Sinochem Holdings has businesses in chemicals, agriculture, tires, real estate, financial services, and others.

Peer Comparison

Sinochem Holdings has no direct peers given its diversified businesses. Therefore, we have chosen peers with similar businesses such as Bayer AG and BASF SE. We have also chosen Longfor Group Holdings Ltd. and Shimao Group Holdings Ltd. as peers for Sinochem Hong Kong's real-estate business.

Bayer AG is a Germany-headquartered company with a global presence in businesses such as crop science, pharmaceuticals, and consumer-health products. In 2020, pharmaceuticals accounted for about 50% of its EBITDA, agricultural products 40%, and consumer-health products, 10%.

BASF is also headquartered in Germany. The company is one of the world's largest diversified chemical groups with businesses in chemicals, materials, coatings, industrial solutions, surface technologies, nutrition and care, and agricultural products.

Sinochem Holdings' creditworthiness is supported by a very high likelihood of extraordinary government support in case of financial stress. Bayer AG and BASF are not government-related entities. Hence, they do not benefit from such an uplift.

On a stand-alone basis, Sinochem Holdings' financial leverage is substantially higher than that of Bayer AG and BASF. We anticipate Bayer AG's debt-to-EBITDA ratio will be above 4.0x in 2021, while BASF's adjusted funds from operations (FFO) to debt will be 40%-42% in 2021. Sinochem Holdings' EBITDA margin is lower than its peers because of its slim-margin energy-trading business. BASF's and Bayer AG's chemical products are also more diversified and their sales are more geographically dispersed.

Sinochem Hong Kong, through Jinmao, has a national presence in China like Longfor and Shimao. However, Sinochem Hong Kong has a smaller operating scale with total contracted sales of about RMB231 billion in 2020. The company is also less geographically diverse, with a presence in 53 cities across mainland China.

However, Sinochem Hong Kong's land bank of 95 million square meters is larger than Longfor's and Shimao's. This should allow the company to take a disciplined approach to land acquisition and deleverage. Longfor's and Shimao's financial leverage is lower than that of Sinochem Hong Kong. They have debt-to-EBITDA ratios of 3.0x-4.0x, compared with Sinochem Hong Kong's 8.5x in 2020.

Sinochem Hong Kong (Group) Co. Ltd.--Peer Comparisons

	Sinochem Hong Kong	BAYER	BASF	Longfor Group	Shimao Group Holdings Ltd.
Foreign currency issuer credit rating	A-/Stable/--	BBB/Stable/A-2	A/Stable/A-1	BBB/Stable/--	BB+/Negative/--
Local currency issuer credit rating	A-/Stable/--	BBB/Stable/A-2	A/Stable/A-1	BBB/Stable/--	BB+/Negative/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2020-12-31	2020-12-31	2020-12-31	2020-12-31	2020-12-31
Bil.	HK$	HK$	HK$	HK$	HK$
Revenue	68	393	561	219	161
EBITDA	16	96	63	58	45
Funds from operations (FFO)	(1)	74	54	29	24
Interest	10	15	6	9	12
Cash interest paid	11	12	4	10	11
Operating cash flow (OCF)	26	36	51	35	9
Capital expenditure	1	23	29	16	8
Free operating cash flow (FOCF)	24	13	22	19	1
Discretionary cash flow (DCF)	12	(14)	(8)	2	(17)
Cash and short-term investments	53	35	43	92	72
Gross available cash	53	100	43	92	72
Debt	139	314	219	192	174
Equity	126	313	326	229	175
EBITDA margin (%)	24.0	24.5	11.3	26.4	28.1
Return on capital (%)	8.3	7.8	3.3	14.9	14.0
EBITDA interest coverage (x)	1.6	6.5	10.3	6.1	3.9
FFO cash interest coverage (x)	0.9	7.2	16.4	3.9	3.2
Debt/EBITDA (x)	8.5	3.3	3.5	3.3	3.9
FFO/debt (%)	(0.6)	23.6	24.6	15.2	13.8
OCF/debt (%)	18.4	11.5	23.3	18.2	5.1
FOCF/debt (%)	17.4	4.3	9.9	9.7	0.5
DCF/debt (%)	9.0	(4.3)	(3.7)	1.0	(9.9)

Business Risk

Sinochem Hong Kong's business risks are driven by the company's real-estate business. Jinmao operates this segment, which accounts for all of Sinochem Hong Kong's revenue and EBITDA. This is after Sinochem Hong Kong deconsolidated its fertilizer business last year.

Growth in contracted sales for Sinochem Hong Kong, through Jinmao, will moderate to 15%-20% over the next two to three years. This compares with the high double digits per year from 2018 to 2020. The downtrend is mainly owing to a slowdown in land acquisitions and softening demand under tightening mortgage releases. Jinmao ranked 15th domestically in sales in 2020, up from 18th in 2019 and 24th in 2018. About 80% of the company's land resources are in tier-one or tier-two cities, where demand is stronger and more stable than lower-tier cities.

Sinochem Hong Kong's EBITDA margin will likely bottom out over the next two to three years as revenue contributions from city-operation projects increase. City-operation projects allow Jinmao to obtain land in a cost-effective way. This is because the company is able to engage with local governments from the early stages of city planning and infrastructure development. This advantage will partly offset margin slippage in primary land development.

Sinochem Hong Kong, via Jinmao, has added more large-scale, low-cost projects to its portfolio. This is thanks to the company's linkage to and support from Sinochem Holdings. We incorporated a one-notch upward adjustment in Sinochem Hong Kong's stand-alone credit profile to reflect this strength.

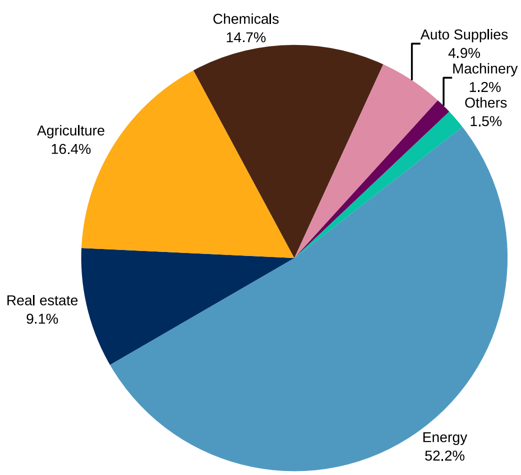
Parent Sinochem Holdings is a global chemical player with leading market positions in agriculture and other products. The group will maintain a leading position in crop-protection products, commercial seeds, animal nutrition, and silicone materials in the coming years. This is considering its strong research and development capabilities, investments in sustaining a new product pipeline, and barriers to entry to these high value-added markets.

In revenue terms, the company ranks first in the global crop-protection market, third in seeds, and second in liquid methionine used in animal feed. It also has a prominent position in the domestic chemical market with wide product offerings. Products include fine chemicals, petrochemicals, fertilizers, coal chemicals, and fluorine chemicals.

Sinochem Holdings' diversified businesses across agriculture, chemicals, tires, and real estate mitigate risks by smoothening earnings fluctuations across different industries. Sinochem Holdings is one of the largest among global chemical peers. The company's revenue will likely reach RMB1.0 trillion-RMB1.1 trillion in 2021-2023 and EBITDA, RMB81.0 billion-RMB94.1 billion.

About one-third of its gross profit will come from non-chemical businesses, including property development and auto supplies, over the coming three years, according to our estimates. In the longer run, we believe Sinochem Holdings' life-science and material-science segments will be the company's most strategic segments, with increased profit contributions.

Sinochem Holdings' Energy Segment Drives Revenue
2021 Revenue Estimate



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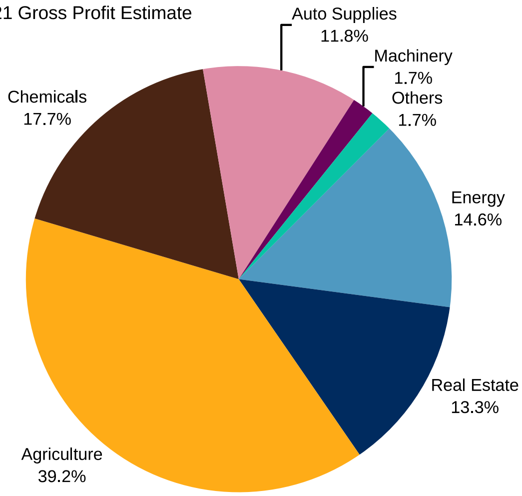
Sinochem Holdings Has Diversified Profits
2021 Gross Profit Estimate



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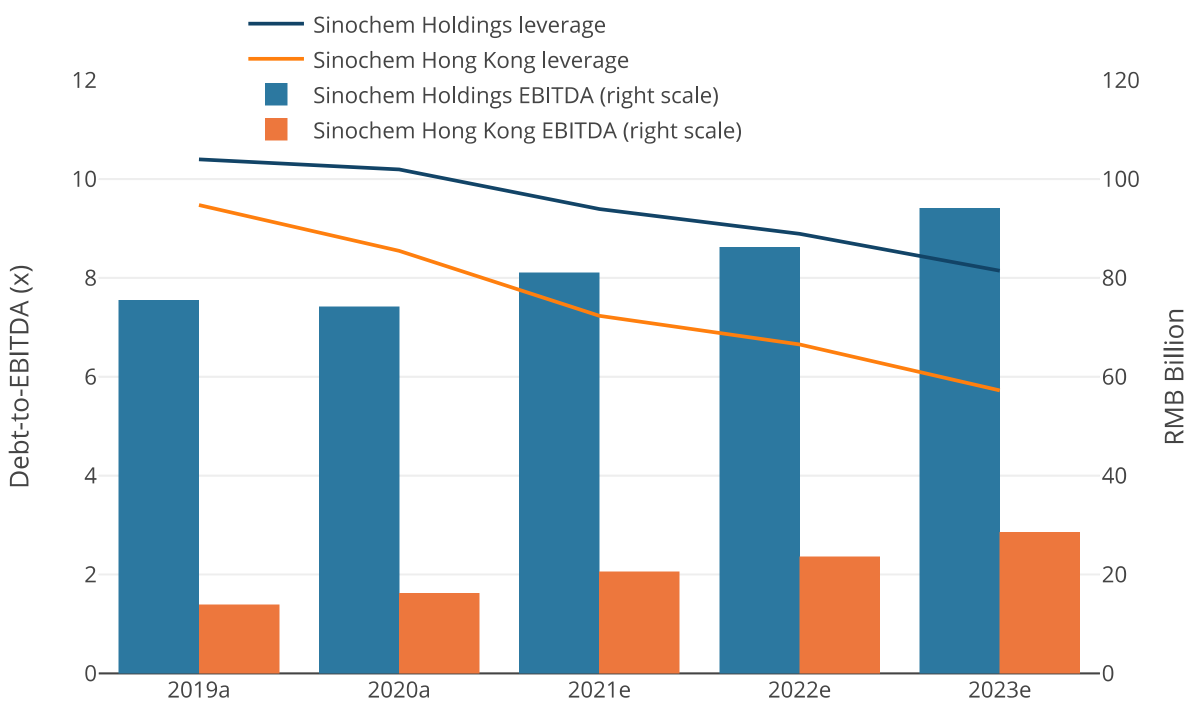
Financial Risk

Sinochem Hong Kong's financial leverage is mainly driven by its key subsidiary, Jinmao. We project the company's debt-to-EBITDA ratio will trend lower in 2021-2023 as earnings growth outpaces debt build-up. By our estimates, EBITDA growth will average about 20% in 2021-2023. This will be underpinned by strong project delivery in 2021, ongoing growth in its property-development projects, and higher-margin city-operation projects over the next two years.

The company's debt growth will likely slow down over the coming two years. We forecast its adjusted debt will grow at an average rate of 5.6% per year in 2021-2023, down from 7.4% per year in 2019-2020. Jinmao's current land bank is sufficient to support development for the next four to five years. This will moderate the pace of debt-funded land purchases, in our view.

Sinochem Hong Kong's debt will rise over the next two to three years due to Jinmao's working-capital requirements for its property projects. These will lead to negative operating cash flow of HK$4.4 billion in 2022 and HK$1.8 billion in 2023.



Parent Sinochem Holdings' financial leverage is very high because it has taken over ChemChina's large amount of debt. The group will exercise financial discipline to contain its debt, in our view. We estimate Sinochem Holdings will fund its RMB36.0 billion annual capex with operating cash flow of RMB38.9 billion-RMB44.4 billion in 2022-2023. This will lead to steady adjusted debt of RMB762 billion-RMB 767 billion in 2021-2023, compared with RMB756 billion last year.

We do not take into account potential proceeds from an IPO of Syngenta Group, a key subsidiary of Sinochem Holdings. This is due to uncertain timing. Planned proceeds of RMB65 billion from the IPO would lower Sinochem Holdings' debt-to-EBITDA ratio by 0.7x-0.8x from our base case in 2021-2023.

Debt maturities

Sinochem Hong Kong (Group) Co. Ltd*	
Period	Amount (Mil.HK$)
Due before June 30, 2022	52,194
Due beyond June 30, 2022	89,631
Total	141,825

*Reported basis as of June 30, 2021.

Sinochem Hong Kong (Group) Co. Ltd.--Financial Summary

Period ending	Dec-31-2015	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020
Reporting period	2015a	2016a	2017a	2018a	2019a	2020a

Sinochem Hong Kong (Group) Co. Ltd.--Financial Summary

Display currency (bil.)	HK$	HK$	HK$	HK$	HK$	HK$
Revenues	340	55	64	76	50	68
EBITDA	11	9	10	15	14	16
Funds from operations (FFO)	3	1	(1)	(0)	0	(1)
Interest expense	5	4	6	9	10	10
Cash interest paid	4	5	6	8	9	11
Operating cash flow (OCF)	9	2	(42)	(11)	14	26
Capital expenditure	3	2	1	1	2	1
Free operating cash flow (FOCF)	5	0	(42)	(12)	11	24
Discretionary cash flow (DCF)	3	(3)	(53)	(21)	1	12
Cash and short-term investments	19	24	35	29	20	53
Gross available cash	19	24	35	29	20	53
Debt	71	73	91	120	132	139
Common equity	100	96	111	105	109	126
Adjusted ratios						
EBITDA margin (%)	3.1	16.8	16.0	19.8	28.2	24.0
Return on capital (%)	4.3	5.2	5.8	8.2	7.1	8.3
EBITDA interest coverage (x)	2.3	2.1	1.7	1.8	1.5	1.6
FFO cash interest coverage (x)	1.7	1.2	0.9	1.0	1.0	0.9
Debt/EBITDA (x)	6.8	7.9	8.9	8.0	9.5	8.5
FFO/debt (%)	4.3	1.2	(0.8)	(0.2)	0.0	(0.6)
OCF/debt (%)	12.3	2.7	(45.6)	(9.5)	10.3	18.4
FOCF/debt (%)	7.6	0.4	(46.4)	(10.4)	8.7	17.4
DCF/debt (%)	4.3	(4.4)	(58.1)	(17.2)	0.9	9.0

Reconciliation Of Sinochem Hong Kong (Group) Co. Ltd. Reported Amounts With S&P Global Adjusted Amounts (Bil. HK$)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2020									
Company reported amounts	134	45	68	11	10	4	16	33	4	1
Cash taxes paid	-	-	-	-	-	-	(6)	-	-	-
Cash interest paid	-	-	-	-	-	-	(10)	-	-	-
Lease liabilities	1	-	-	-	-	-	-	-	-	-

Reconciliation Of Sinochem Hong Kong (Group) Co. Ltd. Reported Amounts With S&P Global Adjusted Amounts (Bil. HK$)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Debt-like hybrids	17	(17)	-	-	-	0	(0)	(0)	(0)	-
Intermediate hybrids (equity)	6	(6)	-	-	-	0	(0)	(0)	(0)	-
Accessible cash and liquid investments	(40)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	5	5	6	0	0	-	0
Share-based compensation expense	-	-	-	0	-	-	-	-	-	-
Dividends from equity investments	-	-	-	0	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	6	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(7)	-	-
Noncontrolling/ minority interest	-	104	-	-	-	-	-	-	-	-
Debt: other	21	-	-	-	-	-	-	-	-	-
Total adjustments	5	81	0	5	11	7	(17)	(7)	(1)	0
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	139	126	68	16	21	10	(1)	26	3	1

Liquidity

We assess Sinochem Hong Kong's liquidity as adequate. We expect Sinochem Hong Kong's ratio of liquidity sources to liquidity uses to be 1.2x over the 12 months ending June 30, 2022. Net liquidity sources should remain positive even if EBITDA declines by 15%.

As a core subsidiary of Sinochem Holdings, we view that Sinochem Hong Kong will receive ongoing support from the parent in terms of rolling over its bank loans. The company's liquidity is also buffered by its parent's strong relationships with domestic banks and its large amount of uncommitted unused onshore and offshore credit facilities. We estimate these facilities at about RMB1 trillion as of end-2020.

Principal liquidity sources

- Cash balance and short-term investments of about HK$47.0 billion as of June 30, 2021.
- FFO of HK$6.1 billion for the 12 months ending June 30, 2022.
- Ongoing group support of HK$5.0 billion in terms of rolling over bank loans for the 12 months ending June 30, 2022.
- Proceeds from offshore note issuance of HK$24.9 billion since June 30, 2021.

Principal liquidity uses

- Debt maturities of HK$50.4 billion over the 12 months ending June 30, 2022.
- Working-capital outflow of HK$13.2 billion over the same period.
- Capex of HK$2.2 billion over the same period.
- Dividend payout of HK$2.4 billion over the same period.

Environmental, Social, And Governance

The exposure of Sinochem Hong Kong's real-estate business to environmental and social risks, through its subsidiary Jinmao, is generally in line with other Chinese property developers. Jinmao's green technology is a key feature of the company's products. The company's emphasis on eco-friendly features has pushed up its construction cost.

Historically, the company has been able to offset this higher cost with premium pricing to maintain its margin. But as we foresee softening property demand in China over the coming years, customers may become less willing to pay premium prices. Sinochem Hong Kong's real-estate profitability may be affected.

We view Sinochem Holdings' exposure to environmental risks to be in line with other chemical peers. The group's agriculture and chemical businesses are facing more stringent environmental standards, including a push toward lower carbon emissions. Its oil and gas businesses also face long-term demand risks due to the energy transition toward renewable energy to address climate change. In January 2021, the group's two constituent companies, Sinochem Group and ChemChina, committed to meeting China's national target of reaching peak carbon emissions by 2030 and carbon-emission neutrality by 2060.

Group Influence

We view Sinochem Hong Kong as a core subsidiary of Sinochem Holdings. We therefore equalized our long-term ratings on Sinochem Hong Kong with Sinochem Holdings' 'a-' group credit profile.

Sinochem Hong Kong is a direct extension of the parent and integral to the group's offshore financing and investing strategy, in our view. The company is fully integrated with Sinochem Holdings strategically, operationally, and financially. It is distinct from the other financing and investment vehicles of Sinochem Holdings' subsidiaries. This is because the company directly acts on behalf of the ultimate parent for high-level, strategic initiatives.

Sinochem Hong Kong is also closely linked with the parent's reputation and brand and is highly unlikely to be sold. The company's role will likely be reinforced in the future. As the group's offshore investment platform, we believe Sinochem Hong Kong will serve as the centralized platform to manage the group's offshore companies in activities such as board-member appointment and financing.

Government Influence

Our assessment of Sinochem Holdings' very high likelihood of receiving extraordinary support from the Chinese government in the event of financial distress is based on the following group characteristics:

- Very strong links to the government. The Chinese government fully owns Sinochem Holdings and is highly likely to extend support in strategically-important sectors such as agriculture. The government can exert strong influence on the group's strategy and business by appointing senior management.

- Very important role to the government. Sinochem Holdings plays a vital role in promoting the modernization of China's agriculture industry, as well as ensuring grain-supply security by maintaining grain safety and productivity. In addition, the group operates national strategic reserves for important materials such as oil and natural rubber. As the only chemical SOE under the central SASAC, it also takes an active part in setting industry benchmarks and regulations for the domestic market.

Issue Ratings--Subordination Risk Analysis

Capital structure

Our issue ratings consider Sinochem Hong Kong's capital structure as of June 30, 2021. As of that date, the company had a total of HK$183.6 billion in consolidated debt. Of this, HK$20.9 billion was secured debt, HK$128.4 billion unsecured debt incurred by its operating subsidiaries, and HK$34.3 billion unsecured debt at the parent level.

Analytical conclusions

We rate all the senior unsecured notes guaranteed by Sinochem Hong Kong at 'A-', the same as the issuer credit rating. This is despite the company's priority debt ratio of 81.3%, which exceeds our 50% threshold for notching down the issue rating. This is because we consider Sinochem Hong Kong to be a core subsidiary of Sinochem Holdings, which has a very high likelihood of receiving extraordinary government support. We believe the government is willing and able to intervene so that structurally subordinated lenders would not have worse recovery prospects than structurally senior lenders.

Ratings Component Scores

Rating Component Scores

Foreign currency issuer credit rating	**A-/Stable/--**
Local currency issuer credit rating	**A-/Stable/--**
Business risk	**Satisfactory**
Country risk	Moderately High
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	**Aggressive**
Cash flow/leverage	Aggressive
Anchor	**bb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	**bb+**
Group credit profile	a-
Group status	Core (+4 notches)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
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Related Research

- ChemChina Ratings Raised To 'A-'; Sinochem HK SIC And Bluestar Ratings Affirmed; Outlooks Stable Published Nov. 9, 2021

RatingsDetail

Ratings Detail (as of December 06, 2021)*

Sinochem Hong Kong (Group) Co. Ltd.	
Issuer Credit Rating	A-/Stable/--
Issuer Credit Ratings History	
09-Nov-2021	A-/Stable/--
09-Apr-2021	A-/Developing/--
17-Apr-2014	A-/Stable/--
Related Entities	
China Jinmao Holdings Group Ltd.	
Issuer Credit Rating	BBB-/Negative/--
China National Bluestar (Group) Co. Ltd.	
Issuer Credit Rating	BBB/Stable/--
China National Chemical Corp. Ltd.	
Issuer Credit Rating	A-/Stable/--
Sinochem International Corp.	
Issuer Credit Rating	BBB+/Stable/--